The AICPA Professional Valuation Standards: Statement on Standards for Valuation Services

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The American Institute of Certified Public Accountants (AICPA) Statement on Standards for Valuation Services (SSVS) has become the de facto professional standard within the valuation profession. This discussion provides an update on this AICPA professional standard since its issuance in 2007. SSVS is binding on certified public accountants (CPAs) who provide valuation services to clients. However, it has become the generally accepted valuation profession standard with valuation services clients, the audit and accounting community, the legal profession, the judiciary, financial institutions and financial intermediaries, the national taxing authorities, other government agencies, and the national securities regulatory institutions.

INTRODUCTION

This discussion provides an update on the American Institute of Certified Public Accountants (AICPA) professional standard Statement on Standards for Valuation Services No. 1 (SSVS).

First, this discussion will review the purpose and objective of SSVS, and this discussion will briefly summarize the content and intent of this AICPA professional standard. Second, this discussion will describe the recent (circa 2009) SSVS developments and the expected near-term (circa 2010) SSVS developments. Third and finally, this discussion will comment on the “current state” of this AICPA professional valuation standard and will recommend practical suggestions related to the most common SSVS implementation issues.

THE PURPOSE AND OBJECTIVE OF SSVS

SSVS applies to all AICPA members (and to non-member certified public accountants (CPAs), as required by their state accountancy statutes) who provide certain valuation services to clients. The formal title of the AICPA professional standard is Valuation of a Business, Business Ownership Interest, Security, or Intangible Asset.

That SSVS title accurately and succinctly lists the four types of appraisal subjects covered by the AICPA professional standard:

1. businesses
2. business ownership interests
3. securities
4. intangible assets

Accordingly, SSVS does not provide professional guidance with regard to the valuation of real estate, tangible personal property, and other similar assets.

Unless a specified exception applies, SSVS applies to any AICPA member (or other CPA) who performs an engagement to estimate a value that results in either:

1. a conclusion of value or
2. a calculated value.
So, SSVS applies to members from all AICPA technical disciplines (e.g., accounting, auditing, tax, personal financial planning, etc.). In addition, SSVS applies to valuation services performed for various client purposes (e.g., transactions, taxation, financings, litigation, financial accounting and reporting, bankruptcy, management information, strategic planning, etc.).

SSVS was developed to provide professional guidance to members in all areas of professional practice. SSVS was intended to improve the consistency and quality of valuation services provided to clients by members.

SSVS was also intended to provide replicability and transparency to clients and to other parties who rely on valuations. The U.S. Congress, the federal and state judiciaries, the Internal Revenue Service, and other regulatory agencies have all indicated their desire for greater consistency and transparency with respect to valuations. And, SSVS was also intended to provide clients with well-defined set of valuation services “options.”

In 2001, the AICPA business valuation committee (BVC) formed a standards writing task force (SWTF) to develop the accounting profession’s valuation standard. The SWTF worked with numerous AICPA committees and officers over a six-year period to create the final valuation standard.

SSVS was issued in June 2007 to be effective for valuation engagements entered into on or after January 1, 2008.

SSVS covers the following four principal topics:
1. the engagement acceptance
2. valuation development (i.e., analysis and conclusion)
3. valuation reporting
4. the engagement documentation (including workpaper documentation)

SSVS allows for two levels of client engagements:
1. valuation engagements
2. calculation engagements

In the valuation engagement, the valuation analyst is free to apply whatever valuation approaches, methods, and procedures that the CPA considers to be appropriate. The result of this type of engagement is expressed as a “conclusion of value.”

In the calculation engagement, the valuation analyst and the client agree on both:
1. the valuation approaches, methods, and procedures that the CPA will use and
2. the extent of the procedures that the CPA will perform.

The result of this type of engagement is expressed as a “calculated value.”

Typically, the client will request that the valuation analyst perform a calculation engagement when (1) the valuation subject is of relatively low value, (2) there is a limited engagement budget, or (3) the results of the analysis will be used only for internal purposes. Typically, the valuation analyst performs fewer procedures in a calculation engagement than in a valuation engagement.

However, the important factor that distinguishes a calculation engagement from a valuation engagement is not the number of procedures that the valuation analyst performs. Rather, the important factor in the calculation engagement is the fact that the client has influenced the valuation analyst’s selection of those procedures.

In the valuation engagement, in contrast, the client has no influence over the valuation analyst’s selection of the specific analytical procedures to perform.

The Role of the AICPA Valuation Standards Subcommittee

In 2007, the AICPA BVC formed the valuation standards subcommittee (VSS). The objectives of the VSS include the following:

1. to communicate the existence (and benefits) of SSVS to members and other interested parties
2. to participate in training members with regard to SSVS (through publications, webinars, conferences, etc.)
3. to monitor the implementation of SSVS for purposes of recommending any necessary technical corrections
4. to respond to member inquiries regarding the implementation and application of SSVS
5. to monitor member inquiries for purposes of recommending the development of future professional standards.

The typical SSVS member inquiry comes to the VSS through the AICPA web site (specifically, through the BVFLS section). The SSVS member inquiry is communicated to the VSS by the AICPA...
staff. The VSS members study the SSVS inquiry and then reach a consensus response.

The VSS prepares a written response to the SSVS member inquiry that can be either: (1) a short memo, if a “yes or no” answer is appropriate, or (2) a long memo, if a “how to” explanation is appropriate. The VSS written response is communicated back to the member through the AICPA staff. If the member SSVS inquiry is fact-specific, then the response is sent only to the member.

If the member SSVS inquiry is sufficiently general, then (1) the response is sent to the member and (2) it is also posted on the AICPA web site.

In response to a member inquiry, the VSS typically performs the following procedures to conclude if SSVS does—or does not—apply to a specific client’s fact set:

1. refer to the specific language of SSVS
2. look for guidance in SSVS Interpretation No. 1-01 “Scope of Applicable Services”
3. consider the intent of SSVS
4. confer with the original SWTF members
5. consider if a member can practically and competitively apply SSVS to the subject valuation service
6. reach a consensus opinion within the VSS

The VSS makes every effort to respond as quickly as possible to both member inquiries and to inquiries from valuation users. This AICPA service is provided without cost to members and to the public.

The VSS responds to inquiries related to both “does SSVS apply in this situation?” and “how should I apply SSVS in this situation?”

RECENT PROFESSIONAL GUIDANCE PROVIDED BY THE VSS

Since the VSS is not a senior technical committee of the AICPA, the VSS opinions are not considered to be “authoritative” within the GAAP hierarchy. Nonetheless, members (and parties who rely on valuations) would be well-advised to rely on the VSS nonauthoritative technical guidance (particularly with regard to SSVS issues).

The following list provides examples of some of the professional services that the VSS recently concluded do not have to comply with SSVS:

1. a fairness opinion regarding a purchase, sale, or other transaction (that concludes transaction fairness, not transaction value)
2. the correction of an opposing valuation expert report in litigation when the correction results only in a correction to the other expert’s value opinion
3. a solvency/insolvency opinion for financing (e.g., fraudulent conveyance), bankruptcy (e.g., preference items), etc. purposes that results in:
   a. a conclusion that the company is solvent or insolvent
   b. a conclusion based on multiple solvency tests
   c. a conclusion that may validate/invalidate a transaction—but that does not involve the specific NAV conclusion
4. for a not-for-profit business entity, and for purposes of private inurement test, the FMV appraisal of:
   a. reasonable compensation
   b. reasonable rent or any other expense
   c. reasonable transfer price or reasonable fee for service
5. a reasonable owner/employee compensation for income tax, shareholder litigation, or other purposes (including the analyst’s consideration of the reasonable investor test)
6. the estimate of a valuation discount or valuation premium percent or amount only (but not a dollar-based value conclusion)

Currently, the most common member inquiries regarding SSVS relate to the distinctions between a valuation engagement and a calculation engagement. These common member inquiries include the following:

1. exactly where is the line between a valuation engagement and a calculation engagement
2. whether a calculation engagement (and the resulting calculated value) will be accepted within an income/gift estate tax return or audit, a financial statement audit, or a litigation/expert testimony context

In 2009, the VSS completed a post-implementation technical review of the SSVS content. This technical review resulted in numerous nonsubstantive changes to SSVS. The objectives of these nonsubstantive SSVS changes were to:

1. clarify the SSVS provisions,
2. provide more meaningful or expanded procedural examples,
3. conform the language within the SSVS sections, and
4. conform the SSVS language to other valuation professional guidance.

During this review process, absolutely none of the SSVS requirements changed. Since there were absolutely no substantive changes to SSVS, the AICPA did not reissue the valuation standard. However, any member (or any other party) who downloaded a copy of the SSVS from the AICPA web site since September 2009 would have received an SSVS copy with the revised language.

Expected Future Developments to SSVS
The AICPA forensic and valuation services executive committee (FVSEC) is the AICPA senior technical committee responsible for issuing valuation professional standards (including an SSVS No. 2, No. 3, etc.).

The FVSEC is currently preparing a forensic and valuation services (FVS) standards manual that will formalize the AICPA procedures for issuing future FVS-related professional standards. That FVSEC standards manual should be finalized and approved in 2010.

When the FVSEC standards manual is complete, then the AICPA BVC (through the VSS) can continue the process of identifying the need for—and drafting—any additional valuation standards.

To date, the VSS has identified the following topics for potential additional valuation professional standards: (1) review appraisal valuations and (2) intangible asset valuations. However, even if these topics are approved in concept in the near term, it could take several years before an SSVS No. 2 or No. 3 would actually be issued and become effective.

Summary and Conclusion
SSVS has achieved its intended objectives not only as a valuation standard for CPAs, but also as a generally accepted professional standard within the general valuation community. Since its issuance in 2007, SSVS has become widely accepted within both:

1. the CPA professional community and
2. the much broader legal, regulatory, taxation, financial, and valuation client communities

Arguably the best indication of the success of SSVS was the 2009 VSS technical review of SSVS. The result of that technical review was minor editorial changes—but absolutely no substantive changes—to the AICPA valuation standard.

In addition, there were relatively minor implementation issues related to SSVS in the 2008 and 2009 initial implementation years. And, those minor implementation issues were all successfully handled by the VSS member inquiry process.

Members, parties that use valuation services, and other interested parties should use the AICPA web site procedure in order to obtain SSVS nonauthoritative guidance from the VSS. This process is efficient and it is free.

It appears that time and general CPA member practice may be needed to resolve the most common current SSVS question posed to the VSS: that is, exactly where is the border line between a valuation engagement and a calculation engagement.

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